

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Martensdale-St. Marys Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 election)		
Merle Allen	President	2006
Patrick Connor	Vice President	2005
Holly Estell	Board Member	2005
Dean Gavin	Board Member (Resigned 9/05)	2006
Jim Weaver	Board Member	2007
Board of Education (After September 2005 election)		
Patrick Connor	President	2008
Merle Allen	Vice President	2006
Scott Anderson	Board Member	2008
Jim Weaver	Board Member	2007
A. Velvet VanHoose	Board Member	2006
School Officials		
Peggy Huisman	Superintendent	2006
Jane Cassady	Business Manager	2006
Brick, Gentry, Bowers, Swartz Stoltze, Schuling & Levis, P.C.	Attorney	2006

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(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Martensdale-St. Marys Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Martensdale-St. Marys Community School District, Martensdale, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Martensdale-St. Marys Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2006 on our consideration of the Martensdale-St. Marys Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Martensdale-St. Marys Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

October 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Martensdale-St. Marys Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,880,368 in fiscal 2005 to \$3,994,970 in fiscal 2006, while General Fund expenditures increased from \$3,954,406 in fiscal 2005 to \$4,117,524 in fiscal 2006. The District's General Fund balance was \$341,585 in fiscal 2005 and \$219,031 in fiscal 2006, a 35.88% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state grant revenues during fiscal 2006. The increase in expenditures was due primarily to an increase in negotiated salary and benefits.
- An increase in interest rates during the past fiscal year resulted in interest earnings in the General Fund alone to increase from \$36,275 in fiscal year 2005 to \$50,878 in fiscal year 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Martensdale-St. Marys Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Martensdale-St. Marys Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Martensdale-St. Marys Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Martensdale-St. Marys Community School District Annual Financial Report

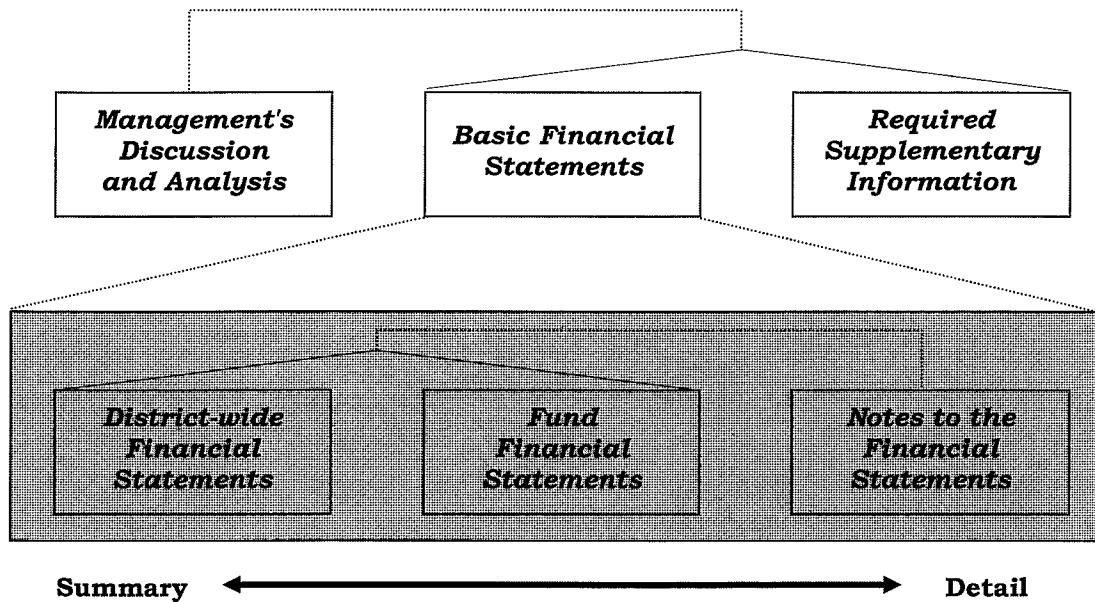


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Day Care Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 3,836,384	3,933,091	38,254	18,718	3,874,638	3,951,809	-1.95%
Capital assets	3,997,701	3,965,594	13,810	13,140	4,011,511	3,978,734	0.82%
Total assets	7,834,085	7,898,685	52,064	31,858	7,886,149	7,930,543	-0.56%
Long-term obligations	2,713,987	2,707,312	0	4,352	2,713,987	2,711,664	0.09%
Other liabilities	2,593,360	2,822,667	5,437	3,063	2,598,797	2,825,730	-8.03%
Total liabilities	5,307,347	5,529,979	5,437	7,415	5,312,784	5,537,394	-4.06%
Net assets:							
Invested in capital assets, net of related debt	1,988,600	1,784,926	13,810	13,140	2,002,410	1,798,066	11.36%
Restricted	180,496	128,233	0	0	180,496	128,233	40.76%
Unrestricted	357,642	455,547	32,817	11,303	390,459	466,850	-16.36%
Total net assets	\$ 2,526,738	2,368,706	46,627	24,443	2,573,365	2,393,149	7.53%

The District's combined net assets increased by 7.53%, or \$180,216, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$52,263 or 40.76% over the prior year. The increase was primarily a result of increased fund balance in the Special Revenue, Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$76,391 or 16.36%. This decrease in unrestricted net assets was a result of the District decreased revenues and increased expenditures in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 416,465	400,735	240,670	160,855	657,135	561,590	17.01%
Operating grants and contributions and restricted interest	466,683	415,797	62,619	58,090	529,302	473,887	11.69%
Capital grants and contributions and restricted interest	279,255	222,695	0	0	279,255	222,695	25.40%
General revenues:							
Property tax	1,613,641	1,559,171	0	0	1,613,641	1,559,171	3.49%
Local option sales and services tax	228,971	219,888	0	0	228,971	219,888	4.13%
Unrestricted state grants	1,898,113	1,944,175	0	0	1,898,113	1,944,175	-2.37%
Unrestricted investment earnings	65,031	66,641	416	0	65,447	66,641	-1.79%
Other	44,398	0	0	0	44,398	0	100.00%
Total revenues	5,012,557	4,829,102	303,705	218,945	5,316,262	5,048,047	5.31%
Program expenses:							
Governmental activities:							
Instructional	2,866,378	2,753,117	0	0	2,866,378	2,753,117	4.11%
Support services	1,402,458	1,221,699	0	0	1,402,458	1,221,699	14.80%
Non-instructional programs	0	0	281,521	222,612	281,521	222,612	26.46%
Other expenses	585,689	358,634	0	0	585,689	358,634	63.31%
Total expenses	4,854,525	4,333,450	281,521	222,612	5,136,046	4,556,062	12.73%
Changes in net assets	158,032	495,652	22,184	(3,667)	180,216	491,985	-63.37%
Beginning net assets	2,368,706	1,873,054	24,443	28,110	2,393,149	1,901,164	25.88%
Ending net assets	\$ 2,526,738	2,368,706	46,627	24,443	2,573,365	2,393,149	7.53%

Property tax and unrestricted state grants account for 70.06% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.86% of the revenue from business type activities.

The District's total revenues were approximately \$5.3 million of which \$5.0 million was for governmental activities and slightly more than \$0.3 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.31% increase in revenues and a 12.73% increase in expenses. The increase in revenues was due to increased property tax revenues and local option sales and services tax received by the District during fiscal 2006. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$5,012,557 and expenses were \$4,854,525.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,866,378	2,130,210
Support services	1,402,458	1,397,195
Other expenses	585,689	164,717
Totals	<u>\$ 4,854,525</u>	<u>3,692,122</u>

- The cost financed by users of the District's programs was \$416,465.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$745,938.
- The net cost of governmental activities was financed with \$1,613,641 in property tax, \$228,971 in local option sales and services tax, \$1,898,113 in unrestricted state grants and \$65,031 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$303,705 and expenses were \$281,521. The District's business-type activities include the School Nutrition Fund and Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Martensdale-St. Marys Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$963,313, above last year's ending fund balances of a \$962,011.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position from \$341,585 to \$219,031 is the product of many factors:
 - Although the District saw an increase in General Fund revenues as compared to fiscal 2005, the increase in revenues was not enough to offset the increase in expenditures during fiscal 2006.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
- The Capital Projects Fund balance increased from \$474,420 in fiscal 2005 to \$535,140 in fiscal 2006. The balance increased due to revenues surpassing expenditures and the transfer to the Debt Service Fund during fiscal 2006.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$19,536 at June 30, 2005 to \$34,170 at June 30, 2006, representing an increase of 74.91%. The Day Care Fund net assets increased from \$4,907 at June 30, 2005 to \$12,457 at June 30, 2006, representing an increase of 153.86%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Martensdale-St. Marys Community School District amended its annual budget one time to reflect additional expenditures associated with instructional, support services, and non-instructional type expenditures.

The District's revenues were \$28,448 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function due to the timing of disbursements paid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$4.0 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$92,985.

The original cost of the District's capital assets was \$5.97 million. Governmental funds account for \$5.91 million with the remainder of \$0.06 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$0 at June 30, 2005, compared to \$24,214 reported at June 30, 2006. This increase resulted from improvements the District made to the softball complex.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 110,000	110,000	0	0	110,000	110,000	0.00%
Construction in progress	2,731,814	2,693,114	0	0	2,731,814	2,693,114	1.44%
Land improvements	24,214	0	0	0	24,214	0	100.00%
Buildings and improvements	1,021,453	1,023,040	0	0	1,021,453	1,023,040	-0.16%
Machinery and equipment	110,220	139,440	13,810	13,140	124,030	152,580	-18.71%
Total	\$ 3,997,701	3,965,594	13,810	13,140	4,011,511	3,978,734	0.82%

Long-Term Debt

At June 30, 2006, the District had \$2,593,360 in general obligation and other long-term debt outstanding. This represents a decrease of 4.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$2,565,000 at June 30, 2006.

The District had total outstanding Post Employment Benefits payable from the General Fund of \$28,360 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General Obligation Bonds	\$ 2,565,000	2,665,000	-3.8%
Post Employment Benefit	28,360	37,960	-25.3%
Capital Lease	0	4,352	-100.0%
Totals	\$ 2,593,360	2,707,312	-4.2%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- The voters of Warren and Madison County passed the Local Option Sales and Services Tax for School Infrastructure (SILO). This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings and purchasing equipment. The funding began in September 2004 and will continue for ten years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jane Cassidy, Business Manager, Martensdale-St. Marys Community School District, Martensdale, Iowa, 50160.

BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 835,494	0	835,494
Other	1,129,953	32,376	1,162,329
Receivables:			
Property tax:			
Delinquent	28,036	0	28,036
Succeeding year	1,516,679	0	1,516,679
Income surtax	168,250	0	168,250
Accounts	60,094	3,262	63,356
Accrued ISCAP interest(Note 5)	6,891	0	6,891
Due from other governments	90,987	0	90,987
Inventories	0	2,616	2,616
Capital assets, net of accumulated depreciation(Note 6)	3,997,701	13,810	4,011,511
TOTAL ASSETS	7,834,085	52,064	7,886,149
LIABILITIES			
Accounts payable	38,264	0	38,264
Salaries and benefits payable	302,386	5,437	307,823
ISCAP warrants payable(Note 5)	835,000	0	835,000
ISCAP interest payable(Note 5)	6,600	0	6,600
ISCAP unamortized premium	5,892	0	5,892
Interest payable	9,166	0	9,166
Deferred revenue:			
Succeeding year property tax	1,516,679	0	1,516,679
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds payable	105,000	0	105,000
Post employment benefit payable	9,600	0	9,600
Portion due after one year:			
General obligation bonds payable	2,460,000	0	2,460,000
Post employment benefit payable	18,760	0	18,760
TOTAL LIABILITIES	5,307,347	5,437	5,312,784
NET ASSETS			
Investment in capital assets, net of related debt	1,988,600	13,810	2,002,410
Restricted for:			
Phase III	792	0	792
Salary improvement program	487	0	487
Management levy	18,785	0	18,785
Physical plant and equipment levy	92,721	0	92,721
Other special revenue purposes	67,711	0	67,711
Unrestricted	357,642	32,817	390,459
TOTAL NET ASSETS	\$ 2,526,738	46,627	2,573,365

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit B

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Charges for Expenses	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest		Govern- mental Activities	Business- Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,919,275	246,609	295,090	0	(1,377,576)	0	(1,377,576)
Special instruction	598,524	45,022	24,613	0	(528,889)	0	(528,889)
Other instruction	348,579	124,834	0	0	(223,745)	0	(223,745)
	<u>2,866,378</u>	<u>416,465</u>	<u>319,703</u>	<u>0</u>	<u>(2,130,210)</u>	<u>0</u>	<u>(2,130,210)</u>
Support services:							
Student services	103,331	0	0	0	(103,331)	0	(103,331)
Instructional staff services	58,452	0	0	0	(58,452)	0	(58,452)
Administration services	518,307	0	0	0	(518,307)	0	(518,307)
Operation and maintenance of plant services	442,008	0	0	0	(442,008)	0	(442,008)
Transportation services	280,360	0	5,263	0	(275,097)	0	(275,097)
	<u>1,402,458</u>	<u>0</u>	<u>5,263</u>	<u>0</u>	<u>(1,397,195)</u>	<u>0</u>	<u>(1,397,195)</u>
Other expenditures:							
Facilities acquisitions	286,145	0	0	279,255	(6,890)	0	(6,890)
Long-term debt:							
Interest and fiscal charges	115,208	0	0	0	(115,208)	0	(115,208)
AEA flowthrough	141,717	0	141,717	0	0	0	0
Depreciation(unallocated)*	42,619	0	0	0	(42,619)	0	(42,619)
	<u>585,689</u>	<u>0</u>	<u>141,717</u>	<u>279,255</u>	<u>(164,717)</u>	<u>0</u>	<u>(164,717)</u>
Total governmental activities	<u>4,854,525</u>	<u>416,465</u>	<u>466,683</u>	<u>279,255</u>	<u>(3,692,122)</u>	<u>0</u>	<u>(3,692,122)</u>
Business-Type activities:							
Non-instructional programs:							
Nutrition services	176,551	128,566	62,619	0	0	14,634	14,634
Day care services	104,970	112,104	0	0	0	7,134	7,134
Total business-type activities	<u>281,521</u>	<u>240,670</u>	<u>62,619</u>	<u>0</u>	<u>0</u>	<u>21,768</u>	<u>21,768</u>
Total	<u>\$ 5,136,046</u>	<u>657,135</u>	<u>529,302</u>	<u>279,255</u>	<u>(3,692,122)</u>	<u>21,768</u>	<u>(3,670,354)</u>
General Revenues:							
Property tax levied for:							
General purposes				\$ 1,328,108	0	1,328,108	
Debt service				195,320	0	195,320	
Capital projects				90,213	0	90,213	
Local option sales and services tax				228,971	0	228,971	
Unrestricted state grants				1,898,113	0	1,898,113	
Unrestricted investment earnings				65,031	416	65,447	
Other				44,398	0	44,398	
Total general revenues				<u>3,850,154</u>	<u>416</u>	<u>3,850,570</u>	
Changes in net assets				158,032	22,184	180,216	
Net assets beginning of year				2,368,706	24,443	2,393,149	
Net assets end of year				<u>\$ 2,526,738</u>	<u>46,627</u>	<u>2,573,365</u>	

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 835,494	0	0	835,494
Other	483,477	457,445	189,031	1,129,953
Receivables:				
Property tax:				
Delinquent	21,217	0	6,819	28,036
Succeeding year	1,182,196	0	334,483	1,516,679
Income surtax	168,250	0	0	168,250
Interfund	0	0	13,292	13,292
Accounts	60,094	0	0	60,094
Accrued ISCAP interest(Note 5)	6,891	0	0	6,891
Due from other governments	0	90,987	0	90,987
TOTAL ASSETS	\$ 2,757,619	548,432	543,625	3,849,676
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 0	13,292	0	13,292
Accounts payable	38,264	0	0	38,264
Salaries and benefits payable	302,386	0	0	302,386
ISCAP warrants payable(Note 5)	835,000	0	0	835,000
ISCAP interest payable(Note 5)	6,600	0	0	6,600
ISCAP unamortized premium	5,892	0	0	5,892
Deferred revenue:				
Succeeding year property tax	1,182,196	0	334,483	1,516,679
Income surtax	168,250	0	0	168,250
Total liabilities	2,538,588	13,292	334,483	2,886,363
Fund balances:				
Reserved for:				
Debt Service	0	0	29,925	29,925
Phase III	792	0	0	792
Salary improvement program	487	0	0	487
Unreserved:				
Undesignated:				
General	217,752	0	0	217,752
Capital projects	0	535,140	0	535,140
Management levy	0	0	18,785	18,785
Physical plant and equipment levy	0	0	92,721	92,721
Other special revenue purposes	0	0	67,711	67,711
Total fund balances	219,031	535,140	209,142	963,313
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,757,619	548,432	543,625	3,849,676

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 16)	\$ 963,313
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	3,997,701
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	168,250
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, are deferred in the governmental funds.	(9,166)
Long-term liabilities, including general obligation bonds, and post employment benefit payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,593,360)</u>
Net assets of governmental activites (page 14)	<u><u>\$ 2,526,738</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,256,502	228,971	342,554	1,828,027
Tuition	268,793	0	0	268,793
Other	104,879	23,912	128,310	257,101
State sources	2,256,776	0	0	2,256,776
Federal sources	108,020	0	279,255	387,275
Total revenues	3,994,970	252,883	750,119	4,997,972
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,880,358	38,761	0	1,919,119
Special instruction	592,288	0	0	592,288
Other instruction	229,845	0	116,954	346,799
	2,702,491	38,761	116,954	2,858,206
Support services:				
Student services	103,331	0	0	103,331
Instructional staff services	58,315	0	0	58,315
Administration services	484,317	0	38,310	522,627
Operation and maintenance of plant services	369,140	26,504	46,429	442,073
Transportation services	258,213	0	6,451	264,664
	1,273,316	26,504	91,190	1,391,010
Other expenditures:				
Facilities acquisitions	0	96,163	293,928	390,091
Long-term debt:				
Principal	0	0	100,000	100,000
Interest and fiscal charges	0	0	115,646	115,646
AEA flowthrough	141,717	0	0	141,717
	141,717	96,163	509,574	747,454
Total expenditures	4,117,524	161,428	717,718	4,996,670
Excess(deficiency) of revenues over(under) expenditures	(122,554)	91,455	32,401	1,302
Other financing sources(uses):				
Transfer in	0	0	30,735	30,735
Transfer out	0	(30,735)	0	(30,735)
Total other financing sources(uses)	0	(30,735)	30,735	0
Net change in fund balances	(122,554)	60,720	63,136	1,302
Fund balance beginning of year	341,585	474,420	146,006	962,011
Fund balance end of year	\$ 219,031	535,140	209,142	963,313

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ 1,302

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceed depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 121,638	
Depreciation expense	<u>(89,531)</u>	32,107

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 100,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 438

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 14,585

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Post Employment Benefit	<u>9,600</u>
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Changes in net assets of governmental activities (page 15) \$ 158,032

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	School Nutrition	Day Care	Total
ASSETS			
Current assets:			
Cash and pooled investments	\$ 17,744	14,632	32,376
Receivables:			
Accounts	0	3,262	3,262
Inventories	2,616	0	2,616
Capital assets, net of accumulated depreciation(Note 6)	13,810	0	13,810
TOTAL ASSETS	34,170	17,894	52,064
LIABILITIES			
Salaries and benefits payable	0	5,437	5,437
TOTAL LIABILITIES	0	5,437	5,437
NET ASSETS			
Investment in capital assets, net of related debt	13,810	0	13,810
Unrestricted	20,360	12,457	32,817
Total net assets	\$ 34,170	12,457	46,627

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	School Nutrition	Day Care	Total
OPERATING REVENUE:			
Local sources:			
Charges for service	\$ 128,566	112,104	240,670
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	68,306	65,959	134,265
Benefits	9,108	14,983	24,091
Services	2,488	823	3,311
Supplies	93,195	23,205	116,400
Depreciation	3,454	0	3,454
TOTAL OPERATING EXPENSES	176,551	104,970	281,521
OPERATING INCOME (LOSS)	(47,985)	7,134	(40,851)
NON-OPERATING REVENUES:			
State sources	2,480	0	2,480
Federal sources	60,139	0	60,139
Interest income	0	416	416
TOTAL NON-OPERATING REVENUES	62,619	416	63,035
Changes in net assets	14,634	7,550	22,184
Net assets beginning of year	19,536	4,907	24,443
Net assets end of year	\$ 34,170	12,457	46,627

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 126,348	0	126,348
Cash received from miscellaneous operating activities	0	109,220	109,220
Cash payments to employees for services	(77,414)	(75,505)	(152,919)
Cash payments to suppliers for goods or services	(83,389)	(24,873)	(108,262)
Net cash provided by (used in) operating activities	(34,455)	8,842	(25,613)
Cash flows from non-capital financing activities:			
State grants received	2,480	0	2,480
Federal grants received	49,519	0	49,519
Net cash provided by non-capital financing activities	51,999	0	51,999
Cash flows from capital and other financing activities:			
Acquisition of assets	(4,124)	0	(4,124)
Capital lease payments	(4,352)	0	(4,352)
Net cash used in capital and other financing activities	(8,476)	0	(8,476)
Cash flows from investing activities:			
Interest on investments	0	416	416
Net increase in cash and cash equivalents	9,068	9,258	18,326
Cash and cash equivalents at beginning of year	8,676	5,374	14,050
Cash and cash equivalents at end of year	\$ 17,744	14,632	32,376
Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:			
Operating income(loss)	\$ (47,985)	7,134	(40,851)
Adjustments to reconcile operating income(loss) to net cash provided by (used in) operating activities:			
Commodities consumed	10,620	0	10,620
Depreciation	3,454	0	3,454
Increase in accounts receivable	0	(2,884)	(2,884)
Decrease in accounts payable	0	(845)	(845)
Decrease in deferred revenue	(2,218)	0	(2,218)
Increase in salaries and benefits payable	0	5,437	5,437
Net cash provided by (used in) operating activities	\$ (36,129)	8,842	(27,287)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and investments	\$ 17,744	14,632	32,376

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$10,620.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 78,171
TOTAL ASSETS	<u>78,171</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 78,171</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2006

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Interest on investments	\$ 2,900
Total additions	<u>2,900</u>
Deductions:	
Non-instructional programs:	
Scholarships awarded	<u>3,000</u>
Total deductions	<u>3,000</u>
Change in net assets	(100)
Net assets beginning of year	<u>78,271</u>
Net assets end of year	<u>\$ 78,171</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Martensdale-St. Marys Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Martensdale and St. Marys, Iowa, and the predominate agricultural territory in Warren and Madison Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Martensdale-St. Marys Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Martensdale-St. Marys Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Warren and Madison Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed

from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise funds, School Nutrition Fund and Day Care Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Day Care Fund is used to account for the day care service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the

District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following

fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable- Payroll and related expenditures for corresponding to the current school year,

which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006 expenditures in the support services function exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 445,942

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The Certificates of Deposit are classified as Category 1, which means the investments are insured and held by the District in the District's name. Certificates of Deposit are stated at fair value.

At June 30, 2006, the District had investments in Certificates of Deposit maturing in over one year as follows:

	Fair Value
Diversified Portfolio	\$ 76,000

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
Debt Service	Capital Projects	\$ 13,292

(4) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 30,735

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating

entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 340,183	6,737	339,000	6,478
2006-07A	6/28/06	6/28/07	495,311	154	496,000	122
Total			<u>\$ 835,494</u>	<u>6,891</u>	<u>835,000</u>	<u>6,600</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	90,000	90,000	0
2005-06B	0	75,000	75,000	0
Total	<u>\$ 0</u>	<u>165,000</u>	<u>165,000</u>	<u>0</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 110,000	0	0	110,000
Construction in progress	2,693,114	38,700	0	2,731,814
Total capital assets not being depreciated	2,803,114	38,700	0	2,841,814
Capital assets being depreciated:				
Land improvements	0	25,488	0	25,488
Buildings and improvements	2,163,450	39,758	0	2,203,208
Machinery and equipment	821,514	17,692	0	839,206
Total capital assets being depreciated	2,984,964	82,938	0	3,067,902
Less accumulated depreciation for:				
Land improvements	0	1,274	0	1,274
Buildings and improvements	1,140,410	41,345	0	1,181,755
Machinery and equipment	682,074	46,912	0	728,986
Total accumulated depreciation	1,822,484	89,531	0	1,912,015
Total capital assets being depreciated, net	1,162,480	(71,839)	0	1,155,887
Governmental activities capital assets, net	\$ 3,965,594	(33,139)	0	3,997,701
Business-type activities:				
Machinery and equipment	\$ 56,863	4,124	0	60,987
Less accumulated depreciation	43,723	3,454	0	47,177
Business-type activities capital assets, net	\$ 13,140	670	0	13,810

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 11,256
Special	6,236
Other	5,780
Support services:	
Instructional staff	137
Administration	1,080
Operation and maintenance of plant	6,727
Transportation	15,696
	46,912
Unallocated depreciation	42,619
Total governmental activities depreciation expense	\$ 89,531
Business-type activities:	
Food services	\$ 3,454

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 2,665,000	0	100,000	2,565,000	105,000
Post Employment Benefit	37,960	0	9,600	28,360	9,600
Capital Lease	4,352	0	4,352	0	0
Total	\$ 2,707,312	0	113,952	2,593,360	114,600

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of December 31, 2003			
	Interest Rates	Principal	Interest	Total
2007	4.50 % \$	105,000	109,997	214,997
2008	4.50	110,000	105,273	215,273
2009	4.25	115,000	100,323	215,323
2010	4.00	120,000	95,435	215,435
2011	3.25	125,000	90,635	215,635
2012	3.50	130,000	86,573	216,573
2013	3.75	135,000	82,022	217,022
2014	4.00	140,000	76,960	216,960
2015	4.10	150,000	71,360	221,360
2016	4.20	155,000	65,210	220,210
2017	4.30	160,000	58,700	218,700
2018	4.40	165,000	51,820	216,820
2019	4.50	175,000	44,560	219,560
2020	4.60	180,000	36,685	216,685
2021	4.70	190,000	28,405	218,405
2022	4.75	200,000	19,475	219,475
2023	4.75	210,000	9,975	219,975
Total		\$ 2,565,000	1,133,408	3,698,408

Post Employment Benefit Payable

The District offered a post employment benefit package. The post employment benefit included family health insurance for four years with a cap of \$800 per month and two more years of single health insurance with a cap of \$315 per month. The post employment benefit will be paid from the General Fund. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$121,106, \$118,514 and \$118,426 respectively, equal to the required contributions for each year.

(9) Risk Management

Martensdale-St. Marys Community School District is a member in the Iowa School Employees Benefits Association, and Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: accidental death, dental, life and long-term disability.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$22,126.

Martensdale-St. Marys Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$141,717 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed the certified budget amounts. During the year ended June 30, 2006 disbursements in the support services function exceeded the amount budgeted.

(12) Construction Commitment

The District entered into a contract totaling \$2,890,946 for construction projects at the high school. As of June 30, 2006, costs of \$2,731,814 had been incurred against the contract. The balance of \$159,132 remaining at June 30, 2006 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,353,921	241,086	2,595,007	2,417,377	2,417,377	177,630
State sources	2,256,776	2,480	2,259,256	2,828,748	2,828,748	(569,492)
Federal sources	387,275	60,139	447,414	84,000	84,000	363,414
Total revenues	4,997,972	303,705	5,301,677	5,330,125	5,330,125	(28,448)
Expenditures:						
Instruction	2,858,206	0	2,858,206	2,869,759	2,920,000	61,794
Support services	1,391,010	0	1,391,010	1,293,208	1,350,000	(41,010)
Non-instructional programs	0	281,521	281,521	211,100	290,000	8,479
Other expenditures	747,454	0	747,454	2,232,720	2,232,720	1,485,266
Total expenditures	4,996,670	281,521	5,278,191	6,606,787	6,792,720	1,514,529
Excess(Deficiency) of revenues over(under) expenditures	1,302	22,184	23,486	(1,276,662)	(1,462,595)	1,486,081
Balance beginning of year	962,011	24,443	986,454	1,926,643	1,926,643	(940,189)
Balance end of year	\$ 963,313	46,627	1,009,940	649,981	464,048	545,892

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year the District adopted one budget amendment increasing budgeted disbursements by \$185,933.

During the year ended June 30, 2006, disbursements in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 17,650	67,711	90,925	176,286	12,745	189,031
Receivables:						
Property tax:						
Current year delinquent	1,135	0	1,796	2,931	3,888	6,819
Succeeding year	60,000	0	94,485	154,485	179,998	334,483
Interfund	0	0	0	0	13,292	13,292
TOTAL ASSETS	\$ 78,785	67,711	187,206	333,702	209,923	543,625
LIABILITIES AND FUND BALANCES						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	60,000	0	94,485	154,485	179,998	334,483
	60,000	0	94,485	154,485	179,998	334,483
Fund balances:						
Reserved for debt service	0	0	0	0	29,925	29,925
Unreserved fund balances	18,785	67,711	92,721	179,217	0	179,217
Total fund balances	18,785	67,711	92,721	179,217	29,925	209,142
TOTAL LIABILITIES AND FUND BALANCES	\$ 78,785	67,711	187,206	333,702	209,923	543,625

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total
	Manage-	Student	Physical	Total	Debt	Other
	ment	Activity	Plant and	Special	Service	Nonmajor
	Levy		Equipment	Revenue		Governmental
			Levy	Funds		Funds
REVENUES:						
Local sources:						
Local tax	\$ 57,021	0	90,213	147,234	195,320	342,554
Other	3,476	124,834	0	128,310	0	128,310
Federal sources	0	0	279,255	279,255	0	279,255
TOTAL REVENUES	60,497	124,834	369,468	554,799	195,320	750,119
EXPENDITURES:						
Current:						
Instruction:						
Other	0	116,954	0	116,954	0	116,954
Support services:						
Administration services	13,540	0	24,770	38,310	0	38,310
Operation and maintenance of						
plant services	31,439	0	14,990	46,429	0	46,429
Student transportation	6,451	0	0	6,451	0	6,451
Other expenditures:						
Facilities acquisitions	0	0	293,928	293,928	0	293,928
Long-term debt:						
Principal	0	0	0	0	100,000	100,000
Interest and fiscal charges	0	0	0	0	115,646	115,646
TOTAL EXPENDITURES	51,430	116,954	333,688	502,072	215,646	717,718
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	9,067	7,880	35,780	52,727	(20,326)	32,401
OTHER FINANCING SOURCES:						
Transfer in	0	0	0	0	30,735	30,735
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	9,067	7,880	35,780	52,727	10,409	63,136
FUND BALANCE BEGINNING OF YEAR	9,718	59,831	56,941	126,490	19,516	146,006
FUND BALANCE END OF YEAR	\$ 18,785	67,711	92,721	179,217	29,925	209,142

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 2,307	1,446	462	3,291
Vocal Music	971	1,799	2,471	299
Instrumental Music	901	814	2,946	(1,231)
Music Resale	317	1,792	1,840	269
Band	334	458	0	792
Boys Basketball	3,758	7,991	7,464	4,285
Athletic Resale	185	0	0	185
Athletics	7,488	31,480	26,710	12,258
Golf	866	2,270	2,327	809
Girls Basketball	90	1,621	1,536	175
Elementary Student Council	2,101	2,083	2,380	1,804
Volleyball	1,871	2,002	2,852	1,021
Boys Track	4	801	741	64
Football	5,303	14,538	15,342	4,499
Cross Country	30	263	293	0
Baseball	4,310	2,889	4,517	2,682
Girls Track	23	2,658	2,399	282
Wrestling	3	0	0	3
Softball	2,537	4,679	6,297	919
Pop	2,371	892	3,263	0
Student Council	1,681	2,988	2,154	2,515
Pictures	3,078	404	290	3,192
Pictures Interest	46	0	0	46
National Honor Society	302	485	6	781
Dance	1,357	1,713	1,504	1,566
Lockers	607	0	0	607
Math Resale	195	130	165	160
Student Ambassadors	0	3,255	1,021	2,234
Class of 2004	1,168	0	0	1,168
Class of 2005	1,192	0	0	1,192
Class of 2006	987	535	1,330	192
Class of 2007	1,678	1,257	720	2,215
Class of 2008	1,908	171	89	1,990
Class of 2009	798	135	0	933
Class of 2010	1,327	173	1	1,499
Class of 2011	29	3,763	1,778	2,014
Annual	4,760	12,897	9,589	8,068
Wrestling Cheerleaders	807	4,428	4,549	686
FB/BB Cheerleaders	903	1,753	0	2,656
General Activities	1,180	10,271	9,918	1,533
Adult Ed	58	0	0	58
Total	\$ 59,831	124,834	116,954	67,711

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	1,828,027	1,782,209	1,468,089	1,428,984
Tuition		268,793	193,115	237,180	192,862
Other		257,101	274,261	228,111	208,732
State sources		2,256,776	2,278,432	2,197,005	2,226,813
Federal sources		387,275	304,235	186,085	174,344
Total	\$	4,997,972	4,832,252	4,316,470	4,231,735
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	1,919,119	1,802,790	1,824,800	1,794,876
Special instruction		592,288	645,026	422,627	438,066
Other instruction		346,799	358,071	367,606	358,869
Support services:					
Student services		103,331	93,793	89,627	95,202
Instructional staff services		58,315	60,109	57,935	60,048
Administration services		522,627	461,959	519,924	466,576
Operation and maintenance of plant services		442,073	418,060	348,965	306,520
Transportation services		264,664	208,206	197,403	208,827
Other support services		0	0	4,883	7,840
Other expenditures:					
Facilities acquisitions		390,091	2,501,314	231,636	10,750
Long-term debt:					
Principal		100,000	47,985	12,360	31,782
Interest and fiscal charges		115,646	176,478	1,274	2,803
AEA flow-through		141,717	140,879	139,942	148,583
Total	\$	4,996,670	6,914,670	4,218,982	3,930,742

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Martensdale-St Marys Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Martensdale-St Marys Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 24, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Martensdale-St Marys Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Martensdale-St Marys Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

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However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Martensdale-St Marys Community School District and other parties to whom Martensdale-St Marys Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Martensdale-St Marys Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

October 24, 2006

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements to the general ledger. The reconciliations are being done; however, the balances are not being adjusted to balance and are not being done on the software system.

Recommendation - The District should reconcile bank statement balances to general ledger balances. The District should utilize the software system to reconcile the balances, and adjustments should be made timely.

Response - We are working on this.

Conclusion - Response accepted.

- I-C-06 Hourly Wages Payroll Procedures - We noted during our audit that the District did not maintain documentation on hours worked by sponsors or coaches for wage and hour purposes, as required by the Department of Labor.

Recommendation - The District should require documentation of hours worked for sponsors and coaches who are not exempt. The District should monitor for minimum wage as well as overtime.

Response - We will keep track of coaches' hours.

Conclusion - Response accepted.

I-D-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - We are working on this.

Conclusion - Response accepted.

I-E-06 Student Activity Fund - During our audit concerns arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity fund shall not be used as a clearing account for any other fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

Donations from Target were recorded in the Student Activity Fund. These donations do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General Fund for use in all instructional supplies/services.

There are picture and locker accounts in the Student Activity Fund. Revenues and expenses related to these type activities are more appropriately handled through the General Fund.

The Student Activity Fund still contains a Class of 2004 and Class of 2005 account. Upon graduation, the old class accounts cease to be a student organization. Once all transactions relating to the account have been completed, the remaining balance should be transferred to other organizations within the Student Activity Fund.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. If receipts/expenditures are deemed inappropriate for the Student Activity Fund the proper measures should be taken to receipt monies to the correct fund they can be expended from.

Response - We will review the accounts and make any necessary changes.

Conclusion - Response accepted.

I-F-06 Authorized Check Signatures - Checks written from the Student Activity have two signatures; however, the business manager/board secretary is not signing all checks.

Recommendation - The Board President and Board Secretary are to sign all checks written by the District to be in compliance with Chapter 291.1 of the Code of Iowa. However, the Board President can designate an authorized signer only upon approval in the board minutes.

Response - It is the normal practices of the district to have the Board Secretary sign all checks. The one exception noted by the auditors was due to the fact that the Secretary was on vacation.

Conclusion - Response accepted.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 exceeded the amount budgeted in the support services function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

In accordance with Chapter 279.7A of the code of Iowa, the below transactions with the board member do not appear to represent a conflict of interest.

Name, Title and Business Connection	Transaction Description	Amount
Jim Weaver, Board Member	Coaching/Driver	\$1,976

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.